

**SOUTH CAROLINA STATE UNIVERSITY**

**ORANGEBURG, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT  
ON INTERNAL CONTROL**

**JUNE 30, 1998**

## **CONTENTS**

	<b><u>PAGE</u></b>
I. INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	1
II. AUDITOR'S COMMENTS	
SECTION A – STATUS OF PRIOR FINDINGS	3
SECTION B – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS	4
ENDOWMENT REQUIREMENTS	5
BOND RESOLUTION REQUIREMENTS	5
EQUIPMENT ACQUISITIONS LISTING	6
PENDING ASSET CONTROL FILE	7
LOAN FUNDS	8
AUXILIARY ENTERPRISES	9
DISBURSEMENT VOUCHER PROCESSING	10
LOAN ACCOUNTING PROCEDURES	12
PAYROLL PROCESSING PROCEDURES	13
NINE-MONTH EMPLOYEE PAY	16
STUDENT BILLINGS SYSTEM	17
FAIR MARKET VALUE OF RESIDENCES REPORT	18
STUDENT REFUNDS PAYABLE ACCOUNT	18
STUDENT ACCOUNTS RECEIVABLE	19
DUAL EMPLOYMENT PROCEDURES	20
LEAVE ACCOUNTING PROCEDURES	20
LEAVE LIABILITY CALCULATION	24
III. MANAGEMENT'S RESPONSE	26

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

October 16, 1998

The Honorable James H. Hodges, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
Orangeburg, South Carolina

We have audited the basic financial statements of South Carolina State University as of and for the year ended June 30, 1998, and have issued our report thereon dated October 16, 1998. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the University is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of South Carolina State University for the year ended June 30, 1998, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control. Accordingly, we do not express such an opinion. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

The Honorable James H. Hodges, Governor  
and  
Members of the Board of Trustees  
South Carolina State University  
October 16, 1998

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements. The reportable conditions are described in Section B in the Auditor's Comments section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned duties.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described in Section B of the Auditor's Comments are material weaknesses. These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of South Carolina State University as of and for the year ended June 30, 1998, and this report does not affect our report on the financial statements dated October 16, 1998.

This report is intended solely for the information of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA  
State Auditor

**AUDITOR'S COMMENTS**

## **SECTION A – STATUS OF PRIOR FINDINGS**

During the current audit, we reviewed corrective action taken on the findings reported in the prior Auditor's Comments section of the report on South Carolina State University for the fiscal year ended June 30, 1997, and dated October 15, 1997. Adequate corrective action has been taken on each of those weaknesses except for the following matters:

<u>Prior Year Comment</u>	<u>Current Year Comment in Section B</u>
Student Billings System	Student Billings System
Bond Resolution Requirements	Bond Resolution Requirements
Payroll Processing Procedures	Payroll Processing Procedures
Endowment Requirements	Endowment Requirements
Auxiliary Enterprises	Auxiliary Enterprises
Loan Funds Reconciliations	Loan Funds
Leave Accounting Procedures	Leave Accounting Procedures
Leave Liability Calculation	Leave Liability Calculation
Student Accounts Receivable	Student Accounts Receivable
Documentation of Receipt of Goods and Services	Disbursement Voucher Processing
Nine-Month Employee Pay	Nine-Month Employee Pay
Student Refunds Payable Account	Student Refunds Payable Account
Fair Market Value of Residences Report	Fair Market Value of Residences Report

**SECTION B – MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES, OR REGULATIONS**

Management of the entity is responsible for establishing and maintaining internal control. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal control.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

## **ENDOWMENT REQUIREMENTS**

As noted in the prior three audit reports, the University did not meet the requirements for its State Commission on Higher Education Endowment. This endowment requires the University to use interest earnings for an endowed professorship. Since its inception in 1990, the University has not made any awards from this endowment.

We again recommend the University develop an overall endowment strategy for the State Commission on Higher Education Endowment to ensure the requirements of the endowment are met.

## **BOND RESOLUTION REQUIREMENTS**

### **Reasonable Improvement Reserves**

As noted in the prior audit report the University has not determined what a reasonable reserve should be for the stadium or housing improvement reserve funds. At June 30, 1998, after making fiscal year 1998 deposits, the stadium improvement reserve fund had a cash balance of \$450,509 and the housing improvement reserve fund had a cash balance of \$916,176. By not making a determination as to what amount of reserves is considered reasonable, there is no way to ascertain if the University is maintaining a sufficient amount of reserves.

The bond resolutions state that improvement reserve funds be established by the University for the purpose of building up and maintaining a reasonable reserve for contingencies and improvements, expansions and renovations of the facilities other than those necessary to maintain the same in good repair and working order. Furthermore, the Stadium Improvement Revenue Bond Resolution states the University's Board of Trustees should deem what is a reasonable reserve to build and maintain.



### Housing Net Revenues

The bond resolution for the Student and Faculty Housing Revenue (SFHR) bonds requires that housing net revenues be at least 120% of the annual bond principal and interest payments. The bond resolution defines net revenues as total revenues less expenditures. In order to meet this requirement the University's net housing revenues would have to equal at least \$542,067. Fiscal year 1998 net revenues for housing operations were (\$552,650). Therefore the University fell \$1,094,717 short of meeting the SFHR bond resolution requirement.

### Recommendation

We again recommend the University and the Board of Trustees perform a study to determine what amounts constitute "reasonable" reserves in the improvement funds. We also recommend that the University closely monitor housing net revenues and take the necessary steps to ensure that the SFHR bond resolution requirements are met.

### **EQUIPMENT ACQUISITIONS LISTING**

The University did not adequately maintain its equipment acquisitions listing during the year. We were unable to locate six of 25 items selected from the listing for testing. In addition, we could not trace to the listing five of 25 items selected from various locations on campus.

The University relies largely on equipment custodians to report changes in the status of equipment for which they are responsible. It appears that not all custodians have been diligent in performing this duty.

We recommend the University perform a complete physical inventory as soon as possible in order to eliminate errors in the equipment acquisitions listing. Management should emphasize to equipment custodians the importance of immediately reporting any change in the status of the equipment for which they are responsible. Property management and internal audit should periodically test various locations for compliance with the University's policies and procedures.

### **PENDING ASSET CONTROL FILE**

When the University makes an expenditure which is potentially for a capital equipment item, the accounting system feeds the relevant details of the expenditure to a pending asset control file for review by property management. Property management reviews the information in the file and determines the proper disposition for such pending items. The information is then removed from the pending file.

During our test of equipment, we observed that the pending asset control file contained \$1,805,000 in items added during fiscal year 1998 for which the proper disposition had not been determined.

We recommend that property management review the pending asset control file regularly. By each fiscal yearend, the proper disposition should be determined for all items contained in the file.

## **LOAN FUNDS**

### **Reconciliations**

The Treasurer's Office of the University maintains student loan information in its Loan Management System (LMS). The LMS accounts for the following loan programs: Perkins, African-American Teachers Loan Program (AATLP), Education Improvement Act loan program (EIA-loan), and Education Improvement Act scholarship program (EIA-scholarships). The Treasurer's Office feeds loan information from the LMS to the Financial Reporting System (FRS) in the Controller's Office. The University prepares its financial statements from the FRS. However, the University did not reconcile loan balances between the LMS and the FRS. We noted unexplained variances at June 30, 1998 between the two systems as follows: Perkins, \$24,082; ATLP, \$5,766; EIA-loans, \$159,113; and EIA-scholarships, \$80,637. This finding was noted in the prior two years. Reconciliations should be performed between the books of original entry and subsidiary ledgers and the general ledger to ensure that balances are recorded and reported correctly.

Again, we recommend the University analyze the variances, determine the individual reconciling items and take appropriate corrective action. We also recommend the University develop and implement procedures to ensure that reconciliations between the LMS and the FRS are performed on a timely basis by a qualified official of the University. These reconciliations should be signed and reviewed by someone other than the preparer.

### **Allowance For Uncollectible Accounts**

The University does not have an adequate method for determining the allowance for uncollectible accounts for the AATLP, EIA-loans, and EIA-scholarships. Currently, the University determines the allowance for each of these programs by applying the Perkins Loan program allowance percentage to each program's receivable balance. However, since the actual Perkins default rate may not be the same as these other programs, a more appropriate

method for determining the allowance is to base the estimate on the default rate of each individual loan program. Generally accepted accounting principles require that receivable accounts have a related contra-asset for amounts deemed uncollectible.

We recommend the University base the allowance for uncollectible accounts on historical data (i.e. actual default rates) of each individual loan program.

### **AUXILIARY ENTERPRISES**

An auxiliary enterprise is an entity that exists to furnish goods or services to students, departments, faculty, or staff, and charges a fee directly related to, although not necessarily equal to, the goods and services. We noted several problems during the testing of auxiliary enterprises, as outlined below. These weaknesses regarding allocation of institutional support costs, auxiliary enterprises as self-supporting activities, and proper classification of activities as auxiliary enterprises were also reported in the prior year.

Paragraph 6.22 of Audits of Colleges and Universities Industry Audit Guide (Audit Guide) states that the distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities. Also, Section 72.13. of Part IB of the 1998 Appropriation Act states that fees applicable to student housing, dining halls, student health service, parking facilities, laundries and all other personal subsistence expenses shall be sufficient to fully cover the total direct operating and capital expenses of providing such facilities and services over their expected useful lives.

One of the University's auxiliary enterprises, the Athletic Department, did not comply with the above criteria. The ratio of revenues to expenditures for the Athletic Department was 76% and 71% for fiscal years 1998 and 1997, respectively. Again, we recommend that the University increase fees and/or reduce expenditures related to the Athletic Department in order to comply with the above requirements.

In addition, we observed that institutional support expenditures were not allocated to auxiliary enterprises. As a result, expenditures for auxiliary enterprises are understated. Paragraph 6.17 of the Audit Guide states, "Appropriate allocations of institutional support should be made to auxiliary enterprises, hospitals, and any other activities not reported under the Educational and General heading of expenditures." Again, we recommend that the University develop an allocation plan and establish procedures whereby institutional support costs will be allocated to auxiliary enterprises.

### **DISBURSEMENT VOUCHER PROCESSING**

We tested a sample of 60 University disbursement vouchers and found the following weaknesses in the processing of those vouchers.

#### **Object Codes**

Three cash disbursement vouchers totaling \$1,569 were recorded to an incorrect object code. These misclassifications were apparently due to clerical error and oversight, the result of which violates the University account code structure and generally accepted accounting principles (GAAP). GAAP require that expenditures be properly recorded for financial statement presentation. We recommend the University follow its account code structure and record all vouchers within the correct object code.

#### **Voucher Payments**

Five cash disbursement vouchers totaling \$3,132 were not paid within 30 working days. The accounts payable department held or did not process these vouchers timely mainly because various University departments did not consistently document the date the procured items were received. These vouchers were paid between two and 15 months late. Section

11-35-45 of the 1976 South Carolina Code of Laws, as amended, requires payment for goods and services within 30 working days of receipt of the goods or services. Furthermore, late payments are in violation of University policy, which requires prompt payment of obligations. We recommend that the Internal Audit Department determine the reason why receipt of goods or services is not always reported promptly and recommend procedures to eliminate this situation. We also recommend the University implement procedures to ensure that receipt of procured items is documented at the time of receipt and that invoices are timely processed for payment.

#### Travel Reimbursement

We found four travel vouchers for which the University reimbursed personnel for claims that were unsubstantiated or overstated as follows:

- A) The University reimbursed an employee for a hotel stay at \$123 per night. However, the hotel bill stated that the room was \$88 per night. This resulted in an overpayment of \$176.
- B) The University reimbursed an employee for the double occupancy rate because the employee's spouse, who is not a University employee, also stayed in the hotel room. This resulted in an overpayment of \$441.
- C) The University reimbursed an employee for a \$40 conference registration fee that had been waived.
- D) The University reimbursed an employee for travel expenses of \$182 for which there was no supporting documentation.

These problems are due to oversight by the accounts payable personnel, failure to verify amounts listed on the travel vouchers, and inadequate supporting documentation submitted by the claimants. The 1997-98 Appropriation Act Proviso 72.32.A. states:

Unless otherwise provided in paragraphs B through H of this section, all employees of the State of South Carolina or any agency thereof including employees and members of the governing bodies of each technical education center while traveling on the business of the State shall, upon presentation of a paid receipt, be allowed reimbursement for actual expenses incurred for lodging. Agencies may contract with lodging facilities to pay on behalf of an employee. Failure to maintain proper control of direct payments for lodging may result in the revocation of the agency's authority by the Comptroller General or the State Auditor. The employee shall also be reimbursed for the actual expenses incurred in the obtaining of meals except that such costs shall not exceed (\$25) per day within the State of South Carolina. For travel outside of South Carolina the maximum daily reimbursement for meals shall not exceed (\$32)... It shall be the responsibility of the agency head to monitor the charges for lodging which might be claimed by his employees in order to determine that such charges are reasonable, taking into consideration location, purpose of travel or other extenuating circumstances. The provisions of this item shall not apply to Section 42-3-40 of the 1976 Code.

We recommend that the University recover \$839 in overpayments to employees. We also recommend that the University train staff on the proper review of travel vouchers and that all employees seeking travel reimbursement be provided with a copy of the *S. C. State University Travel Manual*.

## **LOAN ACCOUNTING PROCEDURES**

### **Student Loan Documentation**

We tested 60 student loan files and found that three did not contain all the supporting documentation required by University procedures. Two of the files were missing promissory notes and the third contained a promissory note that was not signed by the student. Two were also missing loan award letters supporting acceptance by the students. And finally, none of

the three files contained documentation supporting eligibility. Documents supporting financial transactions should be thoroughly maintained and adequately safeguarded.

### Loan Balances

The University advances certain students “stipends” of \$500 while the loans for these students are being processed. These “stipends” are supposed to be entered into the Loan Management System (LMS) indicating they are to be paid back by the students. However, we found that one of the “stipends” in our sample was not entered into LMS.

Also, we found that four loan balances were overstated by a total of \$14,967 because the loans should have been canceled. For each year a student teaches after graduation, one loan year may be canceled. These four loan recipients have taught a sufficient number of years to completely cancel their loans. Generally Accepted Accounting Principles require that amounts be properly stated for financial statement presentation.

We recommend that the University adequately maintain its loan files and obtain all required documentation from students. We also recommend that the University monitor cancellations in order to ensure an accurate accounting for loans.

## **PAYROLL PROCESSING PROCEDURES**

### Payroll Documentation

We reviewed the personnel and payroll files associated with our testing of 60 employee payroll transactions and found that ten of these files did not have supporting documents as required by University procedures. Six files did not have documentation supporting authorization by each employee for various insurance and credit union deductions. Two files did not have W-4 withholding authorizations. Another two files did not have I-9 forms establishing work eligibility. One file had a credit union deduction authorization but no



deduction was made. Finally, one file had the credit union deduction authorization for \$150 but only \$100 was deducted. Effective internal control procedures require that documents supporting financial transactions be maintained and adequately safeguarded and that authorized deductions be made for the correct amount. Similar findings were reported in the previous three audits.

We also noted that fifteen I-9 forms did not have University certification and six I-9 forms did not have the required identification information noted on the form. The I-9 form establishes that the prospective employee had the proper documentation establishing eligibility to work. Immigration and Naturalization Services instructions require I-9 forms to be completed by new employees and reviewed by employers to ensure that all new employees are citizens of the United States or legal aliens. This finding was reported in the previous year.

#### Payroll Approvals

We tested two payroll vouchers and found they were not approved by an appropriate official of the University. This situation creates an opportunity for collusion or for errors to occur in the processing of the University's payroll. Someone other than the payroll preparer should review and approve the payroll vouchers. This is a repeat finding from the previous two audits.

#### Performance Evaluations

We reviewed employee performance evaluations related to the 60 tested payroll transactions and found that seven employees were not formally evaluated during the fiscal year. South Carolina State University's 103-96 EPMS Directive requires that all permanent employees must be evaluated at least annually.

## Timesheets

We tested employee timesheets related to our sample of 60 payroll transactions and noted that for one of the University's departments, timesheets were signed by the supervisor but not by the employees. On another department's timesheet, each employee's name and the supervisor's name were all signed by the same individual. In addition, the University maintained an employee's timesheet on a 2080-hour annual basis while the Employee Profile form indicated a 1950-hour annual basis should be used. Timesheets should be signed by employees and their supervisors. Employee Profile forms should reflect employees' actual work hours.

## Salary Payments

The University paid an employee dual employment wages on June 15, 1998 prior to the employee's contract period, which was June 16, 1998 through June 30, 1998. The State Code of Laws section 8-11-30 states:

- (A) It is unlawful for a person:
  - (1) to receive a salary from the State or any of its departments which is not due; or
  - (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

We again recommend that the University develop and implement written procedures for processing and filing payroll documentation and authorizations and also have someone not associated with the preparation of the payroll review and approve all payroll vouchers. In

addition, we recommend that employee performance evaluations be completed in accordance with University procedures. We further recommend that timesheets be checked for clerical accuracy by immediate supervisors and employees before submitting them for processing. Finally, the University should pay employees in accordance with the stipulated contract period.

### **NINE-MONTH EMPLOYEE PAY**

The University employs part of its faculty for nine months per year. Each faculty member will be paid over this nine-month period, unless he/she elects to allocate the nine-month salary over twelve months. The faculty received various percentage salary increases on October 1, 1997. The nine-month faculty making the twelve-month election would receive three payments at the old salary rate and 21 payments at the new rate. Based on our test, we noted that five nine-month employees making this twelve-month election received \$438 more than was stated in their employment contracts. Upon discussions with payroll personnel it was later determined that all nine-month employees electing to have their salaries allocated over twelve months received more than was allowed in their contracts.

These overpayments occur because the Human Resources Department does not inform the Payroll Department of the total payout stated in the contracts of nine-month employees electing the twelve-month option. This violates the South Carolina Code of Laws section 8-11-30, which states:

- (A) It is unlawful for a person:
  - (1) to receive a salary from the State or any of its departments which is not due; or
  - (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that

monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

We recommend that the Human Resources Department notify the Payroll Department of the total payout for all nine-month employees electing the twelve-month salary option. The Payroll Department should also develop and implement written procedures to assure that nine-month employees electing the twelve-month salary option and receiving an increase during the year are paid the correct amount as stated in their employment contracts. We also recommend that the University recover the overpayments.

### **STUDENT BILLINGS SYSTEM**

For 33 of 60 student accounts receivable balances tested, the University was unable to provide documentation showing that students were billed for all three billing cycles during the year. There were 40 billings out of 180 tested that were not sent to the 33 students. Similar findings were reported in the previous two years. The University's Business and Finance Policies and Procedures Manual Section 4.1, 2. states, "Statements are generated from the system by processing a billing cycle three times per semester."

Failure to timely bill amounts due the University may result in uncollected accounts. We recommend that the University comply with its policies and procedures by sending billing statements to all students with outstanding balances during each of the three billing cycles.

## **FAIR MARKET VALUE OF RESIDENCES REPORT**

The fiscal year 1998 Appropriation Act, Part 1B, Section 72.24. states, "...The fair market rental value of any residence furnished to a State employee shall be reported by the State Agency furnishing the residence to the Agency Head Salary Commission by October 1, of each fiscal year." The University did not submit this report; therefore, the University is in violation of the Appropriation Act. We discussed this requirement with management in the prior two years and they assured us that the necessary report would be submitted in the future. We recommend that the University ensure that appropriate personnel are made aware of Appropriation Act requirements and that the report is submitted to the Agency Head Salary Commission by October 1 of each fiscal year.

## **STUDENT REFUNDS PAYABLE ACCOUNT**

The student refunds payable account, a liability account that should report a credit balance, had a debit balance of \$231,264 at June 30, 1998. This was a 116% increase over the prior year's ending debit balance of \$106,698. The University could not provide an explanation for the change or for the debit balance at June 30, 1998. A similar finding was reported in the prior year. Inability of the staff to explain variances and aberrant account balances could diminish confidence in the accuracy of the accounting records. Atypical balances should be promptly identified, investigated, and explained by those responsible for the accounting records and adjusting entries be made and/or other corrective action be taken, as necessary. We recommend that University staff performing reconciliations be alert for the unusual, e.g. a debit balance in a liability account. Such items should be turned over to the appropriate person for investigation and resolution.

## **STUDENT ACCOUNTS RECEIVABLE**

We compared the balance of selected student accounts receivable from the University's Schedule of Student Accounts Receivable report as of June 30, 1998 to our calculation of student accounts receivable using the University's 409 "Snapshot" report and noted a difference of \$4,507. The University uses the Schedule of Student Accounts Receivable report as the basis for reporting student accounts receivable in its financial statements. This report is created using the Focus computer program. The 409 "Snapshot" report reflects individual student balances as of the date of our test. From the detail on the "Snapshot" report, we removed transactions after June 30, 1998 to arrive at a computed June 30, 1998 balance. Seven of 60 student accounts selected had a zero balance or a negative balance (the University owed the student money). A similar finding was reported in the prior year.

These differences occur because the Focus computer program does not capture all the elements of a student's account on certain reports due to apparent program deficiencies. Also, various other programs used in conjunction with the canned Focus program are not compatible in generating accounts receivable balances.

An effective accounting system includes computerized records and computer programs, which properly record and summarize transactions and produce accurate and consistent information for management control and financial reporting purposes. The University should perform procedures to independently check the accuracy of recorded data and of computer-generated reports.

We recommend that the University correct the programming problems so that the programs will run in conjunction with each other to produce accurate and consistent information. The University should implement procedures to verify the accuracy of computer data and reports. We also recommend that the University periodically and at each fiscal year-end reconcile student accounts receivable balances reported by the Focus and "Snapshot" reports.

## **DUAL EMPLOYMENT PROCEDURES**

We sampled 11 employee dual employment contracts and noted that one employee was paid \$3,718 for dual employment that exceeded the employee's contract limit of \$3,518. The employee was also paid \$4,541 in excess of the limit set by the State Human Resources Regulations. The State Human Resources Regulation 19-702.10.B.4.b. states, "The maximum compensation that an employee will be authorized to receive for dual employment in a fiscal year shall not exceed 30% of the employee's annualized salary for that fiscal year."

These overpayments violated the State Code of Laws section 8-11-30, which states:

(A) It is unlawful for a person:

- (1) to receive a salary from the State or any of its departments which is not due; or
- (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

We recommend that the University adhere to the State Code of Laws and the State Human Resources Regulations for dual employment. The Human Resources Department should exercise due care when monitoring dual employment compensation.

## **LEAVE ACCOUNTING PROCEDURES**

We tested the personnel and payroll files for 25 of 69 employees who terminated employment with the University in fiscal year 1998 and noted the following problems.

## Termination Processing

An employee who was employed for only one day was paid for the entire pay period resulting in an overpayment of \$1,350. Another employee worked five of ten days prior to termination, but was paid for the entire pay period. Also, this employee was paid for 80 hours of accrued annual leave instead of the total accrued annual leave balance of 90 hours. The combination of these errors resulted in a net overpayment of \$264.

The cause of the overpayments is that the Human Resources Department did not receive resignation letters from the employees (or the employing departments of the University) until after the payroll vouchers were processed. The cause of the underpayment of the accrued annual leave was due to oversight or clerical error. A similar finding was noted in the prior year.

These overpayments violated the State Code of Laws section 8-11-30, which states:

(A) It is unlawful for a person:

- (3) to receive a salary from the State or any of its departments which is not due; or
- (4) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

We recommend that the University comply with the State Code of Laws and pay employees only for the time worked and only for the accrued annual leave earned. The University should develop and implement procedures to ensure that employees (or the employing departments) submit resignation letters to the Human Resources Department in a timely manner. We also recommend that the University recover the two overpayments of \$1,614.



### Transfer of Leave to Other State Agencies

One employee terminated employment with the University but was not paid for 6.5 hours of accrued annual leave equaling \$56. The employee transferred to another State agency but failed to notify the University of the name of the State agency. Therefore the University did not process payment nor transfer the employee's accrued annual leave. A similar finding was noted in the prior year.

This situation violates State Human Resource Regulation 19-703.07(L), which states, "Upon termination from State employment, for reasons other than retirement or death an employee may take both annual leave and a lump-sum payment for unused annual leave, but in no event shall such combination exceed forty-five days in a calendar year."

We recommend that the University comply with the State Human Resource Regulations and pay the former employee the \$56 or transfer the accrued leave to the current employing State Agency.

### Rate of Annual Leave Accrual

We found 13 employees in our sample that had a 1950-hour annual basis listed on their State Employee Profile (EP) but were credited leave on a 2080-hour basis. Also, the hourly rate used to calculate the payout was the 2080-hour basis. Many University employees work 7 1/2 hour days and, therefore, the 1950-hour basis should be used for these employees. Because the University's payroll system is set up on a 2080-hour basis, the University accrues all leave and calculates employee hourly rates on the 2080-hour basis. The South Carolina State University Employees' Manual section V.A.2. states that the University will accrue leave on a 2080-hour basis. The University may not be reporting the correct number of hours for all of its employees on the EP forms. It is not accruing the correct number of hours of leave or accurately calculating the hourly pay rate for each employee whose actual base hours are less than 2080. A similar finding was reported in the prior year.

State Human Resource Regulation 19-703.07.D.1.a. states that full-time employees on a five day workweek schedule (37.5 hours per workweek and 1950-hour annual basis) with State service of less than ten years, shall earn annual leave at the rate of one and one-fourth working days per calendar month of service in each year. Also, State Human Resource Regulation 19-703.07.D.3. states, "Permanent part-time employees shall earn annual leave dating from date of employment on a pro rata basis that produces the equivalent earnings of the full-time employees on a five (5) days per workweek schedule." Regulation 19-703.08.C.2. contains similar provisions for earning sick leave credits for part-time permanent employees. The State Budget and Control Board Office of Human Resources Personnel Information Reporting System Procedures Manual (page 1) states, in part, the following:

The Employee Profile is the primary form used for reporting and maintaining statewide position and employee information...All data reported on the Employee Profile is maintained on a master personnel file and is used for statistical analysis, projection of salary data for budget purposes and generation of various management reports. Therefore, it is critical that all information be reported on an accurate and timely basis.

We recommend the University immediately review the Employee Profile forms for all employees and correct the annual base hours and other information therein as necessary. The University should also establish procedures to ensure that all EP information is updated in a timely manner. Finally, the University should use the actual annual base hours and correctly valued hourly rate for each employee when determining the annual leave payout.

## **LEAVE LIABILITY CALCULATION**

We selected a sample of 25 University employee annual leave balances and noted the following problems.

### **Accrual of Annual Leave**

The University allowed an employee to run a deficit in the employee's accrued annual leave balance. The University did not make the employee take leave without pay for periods of absence when the employee did not have accrued annual leave to cover these absences. Should the employee terminate prior to replenishing the deficit, this would cause an overpayment of \$353 and would violate the State Code of Laws section 8-11-30, which states:

- (A) It is unlawful for a person:
  - (5) to receive a salary from the State or any of its departments which is not due; or
  - (6) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees, except that monies due to employees of the State or any department of the State earned during the month of December may be paid either just before or just after Christmas.

### **Account Purpose Codes**

The University reported 10 employee leave balances in incorrect accounts. Upon further investigation we found an additional 63 employee leave balances in incorrect accounts. The Human Resources Department is either behind in updating its system for personnel account changes or the various departments do not notify the Human Resources Department

of these personnel account changes. Generally accepted accounting principles (GAAP) require amounts to be properly reported for financial statement presentation. We recommend that the University Human Resources Department update their system for all changes of personnel moved to new accounts and report amounts in accordance with GAAP.

#### Calculation of Leave Liability

The Human Resources Department converted their leave system from a 2080-hour basis to a 1950-hour basis for all 1950-hour basis employees and recalculated the annual leave balance for affected employees. These recalculations were incorrect for 15 of the affected employees. In our review of the “Leave Liability” report, some leave documents did not appear to have been entered into the leave system prior to the preparation of the report. Also, the University incorrectly calculated the hourly rate of three employees. The hourly rates were incorrect because the University used the 2080-hour basis to calculate the employee’s rate instead of a 1950-hour basis and rounded the salaries of the other two employees. These incorrect calculations caused an overall understatement of the leave liability by \$1,399 for these employees. Generally accepted accounting principles (GAAP) require amounts to be properly reported for financial statement presentation.

We recommend that the University Human Resources Department enter leave documents timely and base their calculation of leave liability on appropriate leave balances and rates.

## **MANAGEMENT'S RESPONSE**

**SOUTH CAROLINA STATE UNIVERSITY**  
**Management Responses to Current Year Findings**  
**For the Year Ended June 30, 1998**

**Finding #1 Response:**

The University agrees with this recommendation and is in the process of developing an endowment strategy. The University has identified and assigned the administration of this endowment to the Vice President for Academic Affairs.

**Finding #2 Response:**

The University agrees with this recommendation and reasonable reserves will be presented to the University's Board of Trustees for approval at its May 1999 meeting.

**Finding #3 Response:**

The University agrees with this recommendation. The University has contracted with Deloitte & Touche to perform a complete physical inventory of all equipment prior to June 30, 1999. Cyclical inventories are being performed by Property Management and the Internal Audit staff.

**Finding #4 Response:**

The University agrees with this finding. Property Management will review the Pending Asset Control file on a weekly basis to determine the disposition of new purchases. Once an asset has been tagged and moved to the approved status, Property Management will delete this item from the Pending Asset Control file.

**Finding #5 Response:**

The University agrees with this finding. Procedures are being established between the Controller's Office and the Collection Office to perform timely reconciliations of all loan funds with analysis of variances. The University will begin using actual default rates to book the allowance for uncollectible loan accounts.

**Finding #6 Response:**

The University agrees and a plan is being developed for funding Auxiliary Enterprises.

**Finding #7 Response:**

The University agrees with this recommendation. The Procurement Director will ensure proper coding of purchase orders while the Accounts Payable Supervisor will ensure the accuracy of coding on disbursement vouchers.

**Finding #8 Response:**

The University agrees with this recommendation and continues to put procedures in place to expedite the payment process of all invoices.

**Finding #9 Response:**

The University disagrees with this finding. The trip cited is one to Hawaii in which the hotel allowed one employee a discount because of organizational standing as a board member for the conference. As to the other employee whose spouse attended, the single and double room rates were the same price.

On the finding of reimbursement for parking without reimbursement for a rental car, the University employee desired to keep the cost of the trip at a minimum for the University and therefore, the employee absorbed the cost.

**Finding #10 Response:**

The University agrees with this recommendation. The Collection staff will ensure all loan files are complete. The Collection Supervisor will be responsible for monitoring the cancellation of loans and the subsequent recording of cancellations.

**Finding #11 Response:**

The University agrees with this recommendation and has since June 30, 1998 completed updating employee files for proper work authorization documentation.

The University is in the process of completing annual formal evaluations on all permanent full time employees.

The Payroll Supervisor will ensure all time sheets have proper signatures and further ascertain that hourly rates are accurate.

The Controller will approve the final trial for the Payroll Voucher.

**Finding #12 Response:**

The University will comply with this recommendation. The Director of Human Resources and the Payroll Supervisor will develop procedures to ensure nine month faculty on the twelve month pay option and receiving increases during the fiscal year will have their pay-out adjusted accordingly. The Director for Human Resources will pursue recovery of the overpayment cited.

**Finding #13 Response:** (Student Billings System)

The University agrees and will comply with this recommendation.

**Finding #14 Response:** (Fair Market Value of Residences Report)

The University agrees and will comply with this recommendation.

**Finding #15 Response:** (Student Refunds Payable Account)

The University agrees with this recommendation and has begun to identify individuals and methods to resolve variances in this account.

**Finding #16 Response:** (Student Accounts Receivable)

The University concurs with this recommendation. A review of the staffing in Accounts Receivable is being done and changes will be implemented to verify the accuracy of student accounts receivables. Also, the Information Technology Center is reviewing the program used to generate student accounts receivables to confirm its accuracy.



**Finding #17 Response:**

The University agrees with this recommendation and has completed an internal audit of the Accrued Leave. A follow-up to verify continued accuracy will be done prior to June 30, 1999. Also, the Human Resources Director will pursue transfer of accrued leave on the former employees.

The Rate of Annual Leave Accrual has been adjusted and all employees have been notified of this correction as of the first half of the current fiscal year.

**Finding #18 Response:**

The University agrees with this recommendation and corrective measures are being taken to ensure accuracy of accounts and leave balances.